

Service Date: November 13, 1996

DEPARTMENT OF PUBLIC SERVICE REGULATION
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MONTANA

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IN THE MATTER of the Application of)	UTILITY DIVISION
MOUNTAIN WATER COMPANY for)	
Authority to Increase Rates and Charges)	DOCKET NO. D96.4.61
for Water Service to its Missoula Division.)	ORDER NO. 5910d

ORDER APPROVING STIPULATION AND SETTLEMENT

INTRODUCTION AND PROCEDURE

1. On April 12, 1996 the Montana Public Service Commission (Commission) received an application from Mountain Water Company (Mountain Water) for authority to increase rates and charges for water service in its Missoula Division serving Missoula, Montana. Mountain Water filed its application under the optional filing rules, Administrative Rules of Montana (ARM), 38.5.601, *et seq.*, for test year ending 1995. Mountain Water computed its revenue requirements for test year 1995 to be \$8,945,138, compared with revenues at existing rates of \$7,770,514. Mountain Water requested a total increase of \$1,174,624 in annual revenues (a 15.12 percent increase) and interim rate relief in the amount of \$648,317 in annual revenues (an increase of 8.34 percent).

2. Mountain Water made approximately \$2.8 million worth of net capital improvements in 1995, including a computer-based telemetry system that the company maintains will enable it to respond to changing conditions and customer demands automatically and will monitor and report equipment failure 24 hours a day. Other capital investments and expense changes are described in more detail below.

3. The Commission issued Procedural Order No. 5910 and published and served the Notice of Application and Intervention Deadline on April 29, 1996. Montana Consumer Counsel and the City of Missoula intervened in the Docket.

4. Montana Consumer Counsel and Commission Staff audited the books and records of Mountain Water and its parent company, Park Water Company. Based on its audit, Montana Consumer Counsel entered into negotiations with Mountain Water and requested permission not to file Intervenor testimony as required by the Procedural Order. The City of Missoula also did not file testimony. Accordingly, the only expert testimony in the record is Mountain Water's.

5. Mountain Water modified its request for interim relief to an annual increase of \$575,413, for an increase of 7.34 percent, based on the audit. On August 12, 1996 the Commission issued Order No. 5910c granting Mountain Water interim rate relief of \$575,413 on an annual basis.

6. On August 27, 1996, the Parties, including Mountain Water and Intervenor Montana Consumer Counsel and the City of Missoula, filed an executed Stipulation supporting a permanent revenue increase of \$790,814, for an annual increase of \$215,401 over the interim rate order. This increase would be generated by increasing all interim rates and charges, except rates for private fire protection, by 2.56 percent over the interim rates. Parties attached to the Stipulation proposed tariffs which also included a low income discount for customers who apply and qualify annually for the Low Income Energy Assistance Program (LIEAP). The proposed low income discount would increase from \$3.00 to \$4.00 per month.

7. The stipulating parties agreed that the stipulated rate increase is unattributed, except as may be necessary to provide continuity for future rate orders. The Stipulation provided that the Commission (a) allow recovery of Other Post-Employment Benefits (OPEB's) expense, including amortization, as proposed by Mountain Water; (b) include in the rate increase, for tracking purposes, \$125,512 for expenses incurred under § 69-4-511, MCA; and (c) include a net rate case expense of \$7,023 amortized over two years. The Stipulation incorporated a hypothetical capital structure of 55 percent equity, at a cost of 11.5 percent (weighted cost, 6.325 percent), and 45 percent debt, at a cost of 9.07 percent (weighted cost, 4.082 percent), for a total weighted cost of 10.407 percent. The Stipulation changed the capital structure from the application, as filed, of 60 percent equity (weighted cost, 6.90 percent) to 40 percent debt (weighted cost, 9.07 percent), which would have resulted in a total cost of capital of 10.528 percent.

8. Parties represented that the act of agreeing and entering into this Stipulation does not connote acceptance of the positions of the other parties, nor does the Stipulation indicate acceptance, agreement, or concession to any rate making principle, cost of service determination, or legal principle which may be embodied in the stipulation.

9. On October 10, 1996, a quorum of the Commission conducted a hearing, chaired by Commissioner Bob Rowe, District # 5 which includes Missoula, on the stipulation at the City Council Chambers, City Hall, in Missoula, Montana. The hearing began at 3:00 p.m. for the technical portion and at 7:00 p.m. for the convenience of the public. The Commission heard argument and took evidence, pursuant to Mountain Water's Motion, on whether the adoption of the stipulated settlement by the Commission would be in the public interest. Arvid M. Hiller, Vice President and General Manager, and John Kappes, Coordinator of Rates for Mountain Water, testified on the Stipulation for the utility; Frank Buckley, Rate Analyst, testified for the Montana Consumer Counsel. Public witnesses included Wells Montgomery, William Hicks and Carol Hovland, Mountain Water customers in Missoula, and James Morton, Executive Director, District XI, Human Resources Council, Missoula, Montana.

COUNSEL PRESENTATION OF STIPULATION

10. In his opening statement, Counsel for Mountain Water stated that this is the second of three filings as required under Commission optional rules. The filing is based on a 1995 test year, with a change period through 12/31/96. The Stipulation, however, does not reflect the full period, but only the changes that are known and measurable. Mountain Water cases are fairly transparent and straight-forward, thereby amenable to settlement, explained Mountain Water's counsel. Driving the increase are major investment in capital improvements, including upgraded and expanded mains, given Missoula's growth, and depreciation and the tax component (non-rate base), for 55 percent of the rate increase. The remaining 45 percent of the increase results from increased operation and maintenance expense. The purchased power expense has increased with Montana Power Company's rate increase. Mountain Water cannot mitigate this expense since it exclusively uses wells for its water supply. Other increased

expenses include payroll and benefits (Cost of Living Allowance and some additional staff) and main office expense.

11. The difference between the application as filed and the stipulated revenue requirement is a result of a lower rate of return, the capital structure, "true-ups" from estimates to known and measurable expenses to August, and a reduced rate case expense (in part because Parties could stipulate). The Stipulation changed the capital structure, hypothetically leveraging Mountain Water more than before the filing, with equity at 55 percent and debt at 45 percent. There is increased debt due to capital improvements and expanded investments, but part of the ratio is a result of the hypothetical capital structure. Counsel for Mountain Water offered three exhibits as part of the record: the original application, with testimony and exhibits; the Stipulation; and a Reconciliation Sheet, showing the negotiated changes.

12. Montana Consumer Counsel Staff Attorney supported the settlement, concurring with the opening statement of Counsel for Mountain Water. Montana Consumer Counsel's office, after thorough discovery and analysis, concluded that the Stipulation represented a reasonable settlement and was in the public interest.

WITNESS TESTIMONY

13. Mountain Water's witnesses responded to questions from the Commission. Arvid Hiller testified that in 1996 close to half the customers are metered, while in 1980 about one-fourth were metered (3,400 meters in 1980; 9,000 in 1996). The flat rates have increased more than metered rates, giving incentive to meter. Unless there are major plumbing changes, there is no cost to the customer to meter. There is sufficient peak capacity to respond to usage. Mountain Water still uses restrictions on sprinkling, to control the cost of system expansion. In response to other policy questions, Mr. Hiller described the capital structure, the difference in expenses from the application to the stipulation, tariff issues, and participation in the low income rate program. Only 249 had qualified for the low income discount. Mr. Hiller did not know why there was such low participation, but suggested that the benefit/cost analysis and report required by the last Mountain Water order would not be cost-effective to produce.

14. John Kappes summarized Mountain Water's Exhibit 3 (Reconciliation), which shows how the changes to the application were derived in the Stipulation. Frank Buckley, Montana Consumer Counsel witness, agreed with Mr. Kappes' summary and testified that the Stipulation was in the public interest.

15. Two public witnesses testified on their concerns about Mountain Water's rate increase. Wells Montgomery moved into the previous Clark Fork Water Company service territory, since acquired by Mountain Water. Mr. Montgomery did not want to see the utility rates keep climbing at the hearing. He and his wife discussed with Mountain Water's representatives the possibility of metering. William Hicks also lives in the former Clark Fork service area. He stated that Mountain Water provides better water service than did Clark Fork. There were four to five water outages per year before Mountain Water took over. However, he was afraid that he would be unable to remain in the area if the rates should increase exponentially as they did two years before. At that time, rates increased 160 percent from \$16.16 per month in 1994 for the flat rate, with an 89 percent increase for the sprinkling rates. Mr. Hicks learned that the large rate increase resulted from the one-time incorporation of Clark Fork into Mountain Water's system and rate structure. Such an increase would not occur again. Mr. Hicks was also concerned about whether Mountain Water's new customers were paying their fair share for the expansion.

16. Two witnesses testified on low-income concerns. Carol Hovland is on a disability fixed income below \$500 per month. She does not know how to budget for the increases. Her rates have increased from about \$16 in 1989 to the present rates, and it seems that they keep going up every year. She did not find it fair that she pays the same flat rate as her neighbors, a family of four with young children in diapers who take a lot of showers and baths. (They use far more water than she does.) Ms. Hovland was worried that Missoula would become another Aspen where those on fixed incomes cannot afford to live and will have to move. She recommended a rate structure based on the number in the household rather than based on the number of rooms and facilities in the house. Metering is not an option for her, because her landlord will not agree to it as he has multiple residences served by one water line. After the hearing Ms. Hovland discussed possible remedies with Mountain Water and others present.

17. James Morton, Executive Director of District XI, Human Resources Council, testified in support of the proposal to continue the low-income discount. He stated that it is not an administrative burden to the company or ratepayers, but is based on the Low Income Energy Assistance Program (LIEAP) determination made by HRC. HRC is doing more marketing about how to get the discount and looking at different ways to inform the public. This summer HRC surveyed 100 LIEAP customers, and only a small number had signed up for the Mountain Water program. Many did not remember getting the information, so HRC again sent out the information and is now following up. Mr. Morton suggested the concept of a municipal fund to support metering to low income customers in rental housing where landlords have multiple lines and do not want to incur the expense of plumbing to allow metering. He will follow-up on this idea.

DISCUSSION AND FINDINGS OF FACT

18. Approval of Mountain Water's initial filing in its entirety (an increase of \$1,174,624 in annual revenues or a 15.12 percent increase) would have resulted in monthly bills for typical residential and commercial customers as follows:

Metered	5/8 x 3/4, 20 Ccf	\$31.43
Flat	Residential - 4 rooms, 1 bath	\$27.52
Flat	Commercial	\$29.49

19. The approved interim rates resulted in monthly bills for typical residential and commercial customers as follows:

Metered	5/8 x 3/4, 20 Ccf	\$29.53
Flat	Residential - 4 rooms, 1 bath	\$25.73

Flat	Commercial	\$27.57
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20. The stipulated rates with a 2.56 percent increase over the interim rates results in monthly bills for typical residential and commercial customers as follows:

Metered	5/8 x 3/4, 20 Ccf	\$30.06
Flat	Residential - 4 rooms, 1 bath	\$26.34
Flat	Commercial	\$28.22

21. Exhibit 3, submitted by Mountain Water, was a reconciliation statement which outlined where the reductions from the initial filing occurred. In the Stipulation Mountain Water reduced the amount requested in its filing by \$383,650. Major reductions from the initial request of \$1,174,624 resulted from (a) the change in the rate of return amounting to \$74,086; (b) an over-estimation of revenue of \$31,076; (c) a payroll correction of \$91,487, plus payroll reductions in insurance and benefits of \$14,336 and taxes other than income of \$7,903; (d) a reduction in rate case expense of \$22,792, saved as a result of the agreement to stipulate; (e) adjustments to insurance and benefits of \$33,460 (adjusted to actual expenses) and \$17,954 (Group Pension); and (f) a Main Office decrease of \$70,055. With other minor adjustments to the initial filing, the final stipulated request, agreed to by Montana Consumer Counsel and the City of Missoula, was the revised dollar increase of \$790,814. The Commission finds that this revenue requirement request agreed to by the Parties is just and reasonable.

22. The issues raised by the public testimony included the future rate trends and the effect of the increase in the number of customers on Mountain Water's rate increases and service. In particular, the former Clark Fork customers are concerned about the improvements made and future plans, since water pressure is still a problem. Mountain Water is working on the problem and making improvements. Metering may be a solution in Clark Fork and system-wide. There is consensus that metering is the fair way for customers to pay for what they actually use. Further,

Mountain Water will install meters at no cost to the customer under circumstances where plumbing is in good repair and no major plumbing repairs are necessary. (There is never a Mountain Water charge to the customer; the customer is responsible for hiring a plumber, if needed.) However, metering is not possible to multiple customers on one line without installing separate lines. This problem usually arises in a landlord/tenant situation. HRC has indicated that it will explore feasible, affordable solutions to this problem. Once the metering election is made and the meter installed, customers cannot go back to the flat rate. Service on the new expansions to the system is metered. The Commission finds that Mountain Water has made a genuine effort to extend metering to its customers and encourages the utility to continue promoting metering.

CONCLUSIONS OF LAW

1. The Applicant, Mountain Water Company, is a public utility as defined in § 69-3-101, MCA. The Montana Public Service Commission properly exercises jurisdiction over Applicant's rates and service pursuant to § 69-3-102, MCA.
2. The Commission has provided adequate public notice and an opportunity to be heard as required by § 69-3-303, MCA, and Title 2, Chapter 4, MCA.
3. The rates and rate structure approved in this order are just and reasonable. §§ 69-3-201 and 69-3-330, MCA.

ORDER

THEREFORE THE MONTANA PUBLIC SERVICE COMMISSION ORDERS THAT:

1. The tariffs, Appendix A of the stipulation, filed by Mountain Water Company implement the terms and conditions of the stipulation and are hereby approved.
2. The tariffs shall be effective for services rendered on and after the effective date of this Order.

DONE IN OPEN SESSION at Helena, Montana this 4th day of November, 1996 by a vote of 3 - 0.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION

NANCY MCCAFFREE, Chair

BOB ANDERSON, Commissioner

BOB ROWE, Commissioner & Presiding Officer

ATTEST:

Kathlene M. Anderson
Commission Secretary

(SEAL)

NOTE: Any interested party may request the Commission to reconsider this decision. A motion to reconsider must be filed within ten (10) days. See ARM 38.2.4806.